

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-4-G - ORDER NO. 2009-579
AUGUST 19, 2009

IN RE: Annual Review of Purchased Gas)	ORDER RULING ON
Adjustment and Gas Purchasing Policies of)	PURCHASED GAS
Piedmont Natural Gas Company, Inc.)	ADJUSTMENT AND GAS
)	PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) concerning its annual review¹ of the Purchased Gas Adjustment (“PGA”) and gas purchasing policies of Piedmont Natural Gas Company, Inc. (“PNG” or “Piedmont”). The South Carolina Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2008). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a Settlement Agreement (“Settlement Agreement”) which was filed with the Commission on July 7, 2009.

The Commission conducted a formal hearing in this matter on July 15, 2009, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable Elizabeth B. Fleming, Chairman, presiding. Jeffrey M. Nelson, Esquire and Shealy Boland Reibold, Esquire, appeared on behalf of ORS. James H. Jeffries, IV, Esquire and Jeremy Hodges, Esquire, appeared on behalf of PNG.

At the hearing, the Commission accepted into the record the pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review).

of PNG witnesses Robert L. Thornton and William C. Williams, as well as the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct and settlement testimony of Carey M. Flynt. The Commission also accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Sullivan's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Williams' exhibits were entered into evidence as composite Hearing Exhibit No. 3. Mr. Thornton's exhibits were admitted into evidence as composite Hearing Exhibit No. 4.

PNG witness Maust testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. Mr. Maust testified that PNG did not implement any changes in its "best cost" gas purchasing policies or practices during the Review Period (April 1, 2008 to March 31, 2009), and PNG's hedging plan accomplished its goal of reducing gas cost volatility to South Carolina customers purchasing gas from PNG. Mr. Maust testified that PNG's South Carolina customers incurred a net economic cost of \$26,349,590 as a result of PNG's hedging plan, but that a substantial portion of these costs is for hedges that mature outside the Review Period in this proceeding, and that the final net economic cost is subject to change based on changes that may occur in the commodities futures market for natural gas between now and the date these hedges mature. Mr. Maust also testified that the "best cost" purchasing policy utilized by PNG has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Thornton testified that following the issuance of the Commission's 2008 review of PNG's gas costs, PNG made several further adjustments to PNG's

Account 253.04 related to incorrectly recorded prior period gas cost entries, incorrect cash-out entries, and a corrected Lost and Unaccounted For true-up entry. PNG witness Thornton further testified that these adjustments to Account 253.04, all of which related to prior periods, were reported to and reviewed by the ORS and that the ORS agreed with the adjustments. These adjustments are reflected in the ending balance of that account for this Review Period.

PNG witness Williams testified that PNG serves approximately 132,000 customers in South Carolina and during the twelve month period ending March 31, 2009, Piedmont delivered approximately 22,732,000 dekatherms of natural gas to its South Carolina customers. Williams testified that PNG has continued to experience a reduction in weather normalized usage per customer which may be due to the efficiency of new appliances used by customers as well as increased price awareness and conservation efforts on the part of customers. Williams further testified that PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. In his testimony, Mr. Williams also proposed revisions to Piedmont's transportation tariffs designed primarily to consolidate the monthly imbalance management and cash-out procedures into a single new Rate Schedule 207. According to Mr. Williams, the proposed tariff revisions will "simplify the structure of our tariffs and avoid any possibility of inconsistent provisions between our various transportation rate schedules . . . [and will] make the administration of various special transportation contracts easier . . ." The proposed tariff revisions will also clarify and strengthen the language of Piedmont's tariffs to ensure that it is absolutely clear that intra-month

transportation imbalances are only permitted to be incurred for operational reasons and to permit Piedmont to enforce that requirement.

ORS witness Sullivan testified that ORS had performed an examination of deferred account #253.04 for the Review Period. He testified that account #253.04 is accurately stated and that the balance of \$25,556,246 fairly represents PNG's under-collection balance as of March 31, 2009.

ORS witness Flynt testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to prudently purchase supplies at prices competitive with industrial alternate fuels, as well as reducing costs to high priority customers; managed its hedging program in a reasonable and prudent manner during the Review Period; and is prepared to meet forecasted future demand requirements. In addition, Ms. Flynt testified that ORS supported PNG's proposed revisions to the company's transportation rate schedules and did not recommend any change to the benchmark cost of gas at this time.

In the settlement testimony, ORS witness Flynt testified that ORS has determined that the terms of the Settlement Agreement serve the public interest and the Settlement Agreement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding. The Settlement Agreement balances the concerns of the using public and preserves the financial integrity of PNG.

The July 7, 2009 Settlement Agreement reflected the Parties' agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable

and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

This hearing does raise concerns within this Commission about the relative cost of the company's hedging program and its impact on volatility, which is an area that this Commission is interested in exploring in the future. However, these concerns do not affect our holding in the present case as reflected below with regard to the company's management of the hedging program during the review period.

In addition, ORS and the company have reached an additional agreement with regard to the interest rate which Piedmont applies to its deferred account. Under this agreement, Piedmont has agreed that, effective September 1, 2009, the interest rate which it will use to calculate under- and over-collection balances will be the rate of interest as of the first day of each month for 10-year United States Government Treasury Bills, plus an all-in spread of 65 basis points (.65 percentage points). The parties have also agreed that interest will not accrue on under- and over-collection balances which exceed \$20 million in its deferred account.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED
AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Daniel F. Sullivan and the pre-filed direct testimony and settlement testimony of Cary M. Flynt are accepted into the record without objection.

3. The original Settlement Agreement is accepted into the record and incorporated into and made a part of this Order by reference (Order Exhibit 1) and based upon the testimony and exhibits presented at the hearing of this matter is found to be in the public interest and constitutes a reasonable resolution of this proceeding. The additional agreement concerning the interest rate applicable to the deferred account is also found to be in the public interest and is approved.

4. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

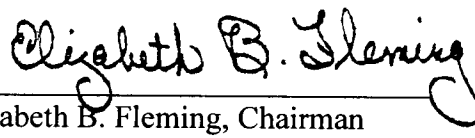
5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

6. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

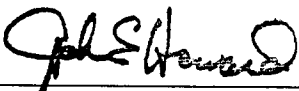
7. The end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Elizabeth B. Fleming, Chairman

ATTEST:


John E. Howard, Vice Chairman
(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-4-G

IN RE:

Annual Review of Purchased Gas)	
Adjustment and Gas Purchasing)	SETTLEMENT AGREEMENT
Policies of Piedmont Natural Gas)	
Company, Incorporated)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by the Public Service Commission of South Carolina ("Commission") Order No. 88-294, dated April 6, 1988, the Commission instituted an annual review of PNG's Purchased Gas Adjustment and Gas Purchasing Policies. Additionally, in Order No. 2002-223, dated March 26, 2002 in Docket No. 2001-410-G, the Commission required PNG to file regular reports on the status of the hedging program and the results of its hedging activities. In the above-captioned proceeding the review period is April 1, 2008 through March 31, 2009 ("Review Period");

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of Keith P. Maust, and the direct testimony and exhibits of PNG witnesses William C. Williams and Robert L. Thornton, without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. PNG will present its witnesses at the hearing.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct and settlement testimonies of ORS witness Carey M. Flynt, without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. ORS will present its witnesses at the hearing.

3. The Parties further agree that with the stipulated testimony of record and the agreement of the Parties regarding the review period activity and end-of-period account balances, the hearing record before the Commission will conclusively demonstrate the following: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

4. The Parties further agree that the stipulated testimony of record regarding the proposed changes to Piedmont's imbalance management and cash-out tariff provisions establishes that those proposed tariff changes are just and reasonable and appropriate to protect the interests of Piedmont and its customers from potentially harmful imbalance activity on its system.

5. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.


6. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

7. This agreement shall be interpreted according to South Carolina law.

8. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

Representing and binding the Office of Regulatory Staff



Jeffrey M. Nelson, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201

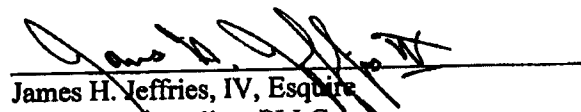
Phone: (803) 737-0800

Fax: (803) 737-0895

Email: jnelson@regstaff.sc.gov

WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.



James H. Jeffries, IV, Esquire
Moore & Van Allen, PLLC
100 North Tryon Street, Ste. 4700
Charlotte, NC 28202
Phone: 704-331-1079
Fax: 704-339-5879
Email: jimjeffries@mvalaw.com